

Report of the Audit Committee and Audit Program

**Multistate Tax Commission
2020**

**Frank Hales, Chair, MTC Audit Committee
Lee Baerlocher, Vice Chair, MTC Audit Committee
Holly Coon, Director, MTC Joint Audit Program**

The following report reflects the activities of the MTC Audit Committee and the Audit Program for the 2020 fiscal year ended June 30, 2020.

*** AUDIT COMMITTEE ***

The audit committee met on August 5, 2019, in Boise, Idaho. This was the first meeting of the committee in fiscal year 2020. There were 66 members, guests and staff present during the public session and 67 members and staff present during the closed session of the meeting. There were two members of the public present during the public session, and there were 56 individuals representing 25 audit program states present during the closed session of the meeting.

The audit committee also met on November 5, 2019, in San Antonio, Texas. This was the second meeting of the committee in fiscal year 2020. There were 44 members, guests and staff present during the public session and 42 members and staff present during the closed session of the meeting. There were two members of the public present during the public session, and there were 34 individuals representing 22 audit program states present during the closed session of the meeting.

The third and final meeting of the audit committee in fiscal year 2020 was held via teleconference on April 21, 2020. There were 58 members, guests and staff present during the public session and 51 members and staff present during the closed session of the meeting. There were 11 members of the public present during the public session, and there were 39 individuals representing 23 audit program states present during the closed session of the meeting.

At each meeting the audit committee reviewed the status of all audits, in progress or recently closed. Discussions were held on income tax and sales tax audits that had significant issues. Also, MTC legal staff provided an update on state and local tax issues and cases at both in-person meetings. Due to challenges of providing a virtual meeting, the legal developments

update was eliminated from the spring meeting agenda. This training was later provided in June.

During the spring meeting in April, the committee participated in a round table discussion in which member representatives compared new policies, procedures and software changes their agencies implemented to manage challenges presented by the COVID-19 pandemic.

During our meeting in San Antonio, members voted to allow taxpayer-provided audit narratives to be included, along with MTC staff narratives, in the confidential audit packet provided to Audit Committee members for discussion beginning at the upcoming meeting in July 2020.

During our meeting in Boise, the committee reviewed the companies recommended for a sales tax audit, along with the voting results by the member states of those companies. The audit committee voted to add ten of those companies to audit inventory.

The audit committee will meet for the first time in fiscal year 2021 on July 28, 2020 during the MTC annual meetings which will be held via teleconference.

*** AUDIT PROGRAM ***

1. Productivity

The Joint Audit Program completed one (1) corporate income tax audit and parts of ten (10) other corporate income tax audits during fiscal year 2020. Audit staff also completed seven (7) sales tax audits and parts of eight (8) other sales tax audits. Currently, there are nineteen (19) income tax audits and thirty-one (31) sales tax audits in progress.

The program proposed assessments of \$181,954,548 for completed and partially completed corporate income tax audits and \$1,625,565 for completed and partially completed sales tax audits during fiscal year 2020.

2. Staffing

The Joint Audit Program added two new income tax auditors in the 2020 fiscal year. Brian Staley and Melissa Kopp having many years of experience at the Montana Department of Revenue have been a great addition to the MTC audit team.

The Chicago Audit Office officially closed in June 2020. With this closing, the Joint Audit Program lost Michelle Becker, the program's administrative assistant for the last seven years. Michelle's replacement will report to the Washington DC office, but the hiring process has been placed on hold due to COVID-19 pandemic.

3. Audit Committee

The audit committee last met via teleconference on April 21, 2020. This was the third and final meeting for the audit committee in fiscal year 2020. The first meeting was held in Boise, Idaho, on August 5, 2019 and the second meeting was held in San Antonio, Texas on November 5, 2019.

4. Training

The Joint Audit Program staff provided instruction at five trainings during the 2020 fiscal year.

- Focused Corporate Income Tax Class
September 27-28, 2019 in Columbia, SC
Larry and Holly were instructors at this training.
- Corporate Income Tax Class
September 24-27, 2019 in Itasca, Illinois
Cathy, Jeff and Holly were instructors at this training.
- Statistical Sampling Class for Sales and Use Tax Audits
October 8-11, 2019, in Portland, Maine
Bob and Jantha were instructors at this training.
- Partnership State Tax Webinar
March 12, 2020
Cathy was an instructor for this training.
- Basics of Transfer Pricing Practice and Theory for State Tax Lawyers and Auditors
Part I- May 12, 2020
Part II- May 19, 2020
Part III- May 28, 2020
Holly was an instructor for these trainings.



TRENDS IN PRODUCTIVITY
MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/2003- 6/2020

	6/03	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	6/13	6/14	6/15	6/16	6/17	6/18	6/19	6/20
Income Tax Total Audits	8	7	7	9	7	7	3	6	6	4	5	6	5	4	4	2	6	1
Total States Audited	165	266	196	175	141	209	79	152	309	131	150	103	79	64	76	35	113	21
Total Hours	10556	12012	12617	12514	9361	17570	6440	10445	25649	11937	12836	14413	11136	12893	7925	7469	28337	3296
Average Hours Per State	64	45	64	72	66	84	81	69	83	91	86	139	141	201	104	213	251	157
Sales Tax Total Audits	11	10	11	6	15	9	10	12	5	5	12	6	4	11	8	6	7	7
Total States Audited	145	154	160	77	187	97	120	147	65	59	163	63	48	108	76	66	71	71
Total Hours	8792	10943	6133	4946	13296	7818	7265	10772	7200	5000	13195	6570	5121	18155	12267	8133	6307	9685
Average Hours Per State	61	71	38	64	71	80	61	73	110	85	81	104	106	168	161	123	89	136
Total Both Taxes Total Audits	19	17	18	15	22	16	13	18	11	9	17	12	9	15	12	8	13	8
Total States Audited	310	420	336	252	328	306	199	299	374	190	313	166	127	172	152	101	184	92
Total Hours	19348	22955	18750	17460	22657	25388	13705	21217	32849	16937	26031	20983	16257	31048	20192	15602	36644	12981
Average Hours Per State	62	55	56	70	69	83	69	71	88	89	83	126	128	180	133	154	188	141